

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

February 20, 2002

The Capital Projects and Bond Oversight Committee met on Wednesday, February 20, 2002, at 9:00 AM, in Room 111 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chair; Senator Robert Leeper, Vice Chair; Senators Tom Buford and Bob Jackson; Representatives Paul Marcotte and Jim Wayne.

Guests testifying before the committee: Senator Ed Worley; Dall Clark and Ken Clevidence, University of Kentucky; Ken Ramey, Dr. Rob Snyder, and Carole Beere, Northern Kentucky University; Secretary Viola Miller, Cabinet for Families and Children; Jim Abbott, Armond Russ, and Tom Howard, Finance and Administration Cabinet; Bill Hintze, Governor's Office for Policy and Management; Secretary Ann Latta, Tourism Development Cabinet; Dr. Jim Tidwell, Kentucky State University; and Angela Martin, Council on Postsecondary Education.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, and Shawn Bowen.

Representative Marcotte made a motion to approve the minutes of the January 16 and February 13, 2002 meetings as submitted. The motion was seconded by Senator Jackson and passed by voice vote.

Chairman Haydon called on Ms. Mary Lynn Collins, Committee Staff Administrator, to review correspondence and information items included in members' folders. Ms. Collins called to members attention correspondence from the Council on Postsecondary Education indicating they planned, in conjunction with the Finance Cabinet, to conduct a training session for postsecondary institutions that will focus on the leasing statutes as well as the purchase and sale of real property. She also reviewed information items regarding proposed legislation relating to the committee's jurisdiction, and a summary of the Governor's recommended Executive and Judicial Branch budgets.

Ms. Collins said also included in members' folders was a staff update on various capital projects. She reported that the construction of the Transportation Cabinet's new office building/parking garage project has been bid and came in under budget. The contract was awarded to Frank Messer & Sons Construction Company of Cincinnati, Ohio for \$75 million.

Chairman Haydon introduced Mr. Dall Clark, Associate Director for Procurement and Construction, University of Kentucky (UK), to discuss two project reports. Mr. Clark reported a proposed \$435,000 unbudgeted project to remove and replace the Nutter Fieldhouse Running Track. He said the project was approved by the Council on Postsecondary Education at its February 4, 2002 meeting. This project will be funded from two sources which have been certified: \$215,000 restricted funds (UK Athletic Association) and \$220,000 from the Blue-White Fund (private donations).

Senator Buford made a motion to approve the project. The motion was seconded by Representative Marcotte and approved by voice vote.

Mr. Clark next reported a proposed \$2 million federally-funded scope increase for the Center for Rural Health in Hazard which is currently housed in the Appalachian Regional Hospital there. The federal funds will be used to add 10,000 gross square feet to the facility. This project was authorized by the 1998 General Assembly for \$6,100,000 in agency bonds. Debt service on these bonds will be made by diverting lease payments UK and Hazard Community College are currently paying the Appalachian Regional Hospital. The 2000 General Assembly approved \$4,000,000 in additional state bond funds for the project; and in November 2000, the committee approved a \$1,000,000 privately-funded scope increase.

Representative Wayne asked what interim financing has been arranged for this project since UK and the Community College will not be able to pay debt service until the relocation is complete. Mr. Ken Clevidence, Vice President for Fiscal Affairs, said interim financing has been arranged for the \$10 million in bond funds, and the \$2 million in federal funds will be available prior to construction.

Senator Jackson made a motion to approve the scope increase. The motion was seconded by Representative Marcotte and passed by voice vote. The revised project scope is \$13,100,000.

Chairman Haydon next introduced Mr. Ken Ramey, Northern Kentucky University (NKU) Vice President for Business Affairs, to discuss a proposed lease by NKU for the Metropolitan Education and Training Services (METS) Program. Mr. Ramey introduced Dr. Rob Snyder, Executive Director, METS Program, and Ms. Carole Beere, Associate Provost, NKU.

Mr. Ramey said the proposed lease is the culmination of vision, wisdom and efforts of the 2000 General Assembly, which appropriated \$700,000 per year for leased space for the METS Center. Mr. Ramey said a committee of six university employees reviewed proposals from four developers with proposed pricing ranging from \$700,000 up to \$1,020,000 per year. Best and final offers were received from three developers, but only one, Corporex Companies of Covington, was within budget with an offer of

\$700,000 per year. The remaining two proposals offered a base price of \$700,000, but added additional association and management fees.

In response to a question from Representative Wayne, Mr. Ramey said Corporex plans to issue \$7.2 million in industrial revenue bonds through the Boone County Fiscal Court to finance construction of the facility. He said the fiscal court, at its meeting the night before, voted unanimously to issue those bonds, contingent upon the approval of this committee.

Representative Wayne asked if recent economic difficulties in the airline industry will affect Delta Airlines' involvement in the METS Program. Dr. Snyder said he did not believe so. He said Delta's personnel have been supportive and they have never wavered in their support for the METS Program. He said this facility will be a valuable asset to the Northern Kentucky community regardless of the economic cycle underway. Dr. Snyder said their market research indicates there are a lot of companies in Cincinnati that will use this facility for training and other commercial purposes. He said if travel and the airlines industry do not come back as strongly as they anticipate, the METS Center will still have a market because companies that would normally send their employees elsewhere will be likely to use the METS Center. Dr. Snyder said if problems develop, the lease has a 30-day cancellation clause.

Senator Leeper asked why the METS Center contains 15% less space than what was advertised. Dr. Snyder said they had originally designed larger foyers and other open spaces that increased the square footage significantly, but they had to cut that out for budgetary reasons. However, he said no change was made in the net assignable (usable) space.

Senator Leeper noted the janitorial and utility costs are not included in the lease. He asked what is the source of funds for these costs. Mr. Ramey said janitorial and utility costs will come from revenues generated from the METS Program, as well as an allocation from the university. He added that they have recently received a \$500,000 federal grant, and are seeking other grants.

Representative Marcotte said the METS Center is a very exciting concept, the facility will attract a lot of attention, and Boone County residents are very excited about this program. He made a motion to approve the METS Center lease. The motion was seconded by Senator Jackson and passed by voice vote.

Chairman Haydon introduced Mr. Jim Abbott, Director for the Division of Real Properties, and Ms. Viola Miller, Secretary of the Cabinet for Families and Children, to discuss lease reports submitted by the Finance and Administration Cabinet. Mr. Abbott reported a new lease (PR-4578) for the Cabinet for Families and Children (CFC) in Boyd County. The lease is at 1539 Greenup Avenue in Ashland and has an annual cost of \$292,498. Mr. Abbott said this lease will consolidate CFC operations currently in two

state-owned buildings in Ashland: the former TB Hospital, administered by CFC, and the Ashland State Office Building, administered by the Workforce Development Cabinet. He said the Workforce Development Cabinet will use the space vacated by CFC in the Ashland State Office Building. He also told members that CFC plans to vacate and surplus the Ashland TB Hospital to the Finance and Administration Cabinet on July 1, 2002. As a result, two other state tenants currently in the building, the Natural Resources and Environmental Protection Cabinet and the Kentucky State Police, will also move to leased property in Boyd County. Mr. Abbott called members' attention to a handout he had prepared relating to the Ashland TB Hospital closure plan.

Representative Wayne asked about the estimated costs of mothballing the TB Hospital Building. Mr. Abbott said they would like to accelerate the surplus of that facility and dispose of it by sale. He said there are several parties, including the City of Ashland and some non-profit agencies, that have expressed interest in buying the facility.

In response to a question from Senator Leeper, Mr. Hintze said funds from the sale of the property will go into the Capital Construction Surplus Account, a statutory holding account. He said the account contains money from the sale of state property and from completed state projects that have remaining fund balances. The proposed expenditure of those funds is typically presented to the General Assembly in the biennial capital budget recommendation.

Senator Leeper made a motion to approve lease contract PR-4578. The motion was seconded by Senator Jackson and passed by voice vote.

Mr. Abbott then reported three state agency leases with space modifications for the period of October through December 2001. He made a correction on the information submitted to the committee relating to PR-4430, (Fayette County - Department of Workers Claims), indicating there are 29, rather than 19, employees in that office. Chairman Haydon said no action is required for PR-3460 (Franklin County) and PR-4044 (Scott County). However, action was required for PR-4430 since the modification is in excess of \$50,000.

Representative Wayne made a motion to approve the modification for lease contract PR-4430. The motion was seconded by Senator Jackson and passed by voice vote.

Chairman Haydon then asked Mr. Bill Hintze, Deputy State Budget Director, and Commissioner Armond Russ, Department for Facilities Management, to discuss the project report submitted by the Finance and Administration Cabinet.

Mr. Hintze introduced Secretary of the Tourism Development Cabinet, Ms. Ann Latta. He then discussed an allocation of \$876,000 from the Capital Construction and Equipment Purchase Contingency Account for the Berea Artisans Center project,

originally authorized by the 1998 General Assembly. Mr. Hintze said they received six competitive bids for this project, and the lowest bid exceeded the authorized project scope of \$8 million. He said the bid also included two additive alternates to replace asphalt shingles with slate shingles and to replace several stucco exteriors with Kentucky limestone.

Secretary Latta said the Berea Artisans Center is a unique facility that will showcase and highlight Kentucky's well-known arts and crafts industry. She said one of the design difficulties relating to the project was constructing a building that will be visible from each side of I-75. Secretary Latta said they hope to open the facility in May 2003.

Chairman Haydon recognized Senator Ed Worley, whose senatorial district includes Berea. He said this is an exciting project which will not only highlight the arts and crafts industry, but will also significantly enhance the tourism industry. He said the project is well located and the people of Berea have put a lot of thought and planning into it.

Representative Marcotte asked what the balance is in the Contingency Fund. Mr. Hintze said the balance is \$19 million, but the Governor's budget recommendation proposes to spend a substantial amount of the balance for repair and maintenance projects. The Contingency Fund will have a balance of approximately \$8.5 million if the budget is adopted as proposed and the allocation presently before the committee is approved.

Senator Leeper asked what is the normal amount of money allocated to the Contingency Fund during the biennium. Mr. Hintze said they normally try to add \$5 million to the Contingency Fund. Mr. Hintze said this has been a remarkable biennial period, because little has been spent from the Contingency Fund. Thus, there is a balance of \$19 million. He said there will be an extremely limited capital program for the next two years, and the projected \$8.5 million balance is in keeping with historic averages.

Representative Wayne said he served on the Governor's Task Force on Smart Growth, and the Governor has placed a great deal of emphasis on restoring downtown areas. He said the Smart Growth Task Force has recommended that any new development be done within the context of the downtown or the urban core area. He asked why this facility is being constructed outside the city of Berea. Secretary Latta said they wanted the facility to be visible from the interstate. She explained that the facility will be not only a tourist attraction, but a tourist information center as well. Once people are in the building, they will be directed into downtown Berea. She said they are considering bicycle tours, as well as other methods, for people to access the city.

Senator Worley said the site for the Artisans Center is within the city limits of Berea, and complies with the comprehensive planning of the Berea City Council and

mayor to promote the city's signature industry. Mr. Hintze added that this project is also combined with the new rest stop on the interstate to alleviate duplication of projects.

Representative Wayne said he planned to vote for this project because it was locally initiated and planned. He said the Governor is emphasizing the Renaissance Kentucky Program and the Smart Growth Initiative, and these initiatives should be considered as future projects are planned.

Senator Jackson said this is a beautiful facility and it is extremely important to Berea and the region. He made a motion to approve the scope increase. The motion was seconded by Senator Buford and passed by voice vote.

In response to a question from Chairman Haydon, Secretary Latta said the land for this project was purchased from Berea College, and the college is constructing an entrance way to the Center. She said the Cabinet is working very closely with the college.

Chairman Haydon complemented the Secretary for promoting Kentucky tourism. Senator Leeper congratulated local officials and the Cabinet for a well thought out project.

In response to another question from Senator Leeper, Mr. Hintze said the Governor's recommended budget proposes to use the Contingency Fund for roof repairs, chiller plant repairs, and basic renovation projects.

Mr. Hintze next discussed a \$150,000 federally funded scope increase for the Kentucky State University (KSU) Aquaculture Classroom and Lab Facility. He said the project was approved by the 2000 General Assembly for \$650,000.

Representative Wayne asked if there is a disagreement between the Council on Postsecondary Education (CPE) and Kentucky State University about the level of state funds available to match federal funds for operation of the Aquaculture Program. Dr. Jim Tidwell, Coordinator of Aquaculture Programs, KSU, said the federal farm bill requires for the first time that 1890 institutions, the historically black colleges, obtain matching state dollars for land grant programs like the Aquaculture Program. He said there are now discussions about how those state matching funds should be allocated and accounted for.

Representative Wayne said the Aquaculture Program is an important program for small farmers, and he was concerned that an internal feud will jeopardize the program. In response to a question from Representative Wayne, Dr. Tidwell said it may be a matter of semantics or definition, but if they are unable to meet the required federal match, it will impact every aspect of the Aquaculture Program. Representative Wayne said he felt as a legislative body we should be endorsing this program.

Ms. Angela Martin, Vice President for Finance, CPE, was asked to respond. She said CPE has been in many discussions with KSU about the land grant match. She said the Aquaculture Program is KSU's Program of Distinction, and approximately \$500,000 annually has been transferred to KSU through the Regional University Excellence Trust Fund for the Aquaculture Program. She said there is some debate now as a side-issue about how KSU should meet the required match of \$.50 for each federal \$1. The CPE and KSU have different opinions on this. Ms. Martin said they are working through the issue with the U.S. Department of Agriculture (USDA), and noted the Chair of the KSU Board of Regents is scheduling a meeting with the USDA. Representative Wayne encouraged the Council to continue working with KSU. He said the Aquaculture Program is special, and will offer a lot of opportunities for small farmers once the marketing structure is in place. He said it is good that CPE and KSU are working the issue out.

Dr. Tidwell noted that one component of the new building will be a processing laboratory where a food science specialization will be added to the program. He said they have another proposal in front of the Tobacco Settlement Board to construct a research and development facility for production of new shrimp-related products.

Senator Jackson asked if the current funding for the classroom and lab facility is in jeopardy. Ms. Martin explained that the \$800,000 project before the committee is completely federally-funded, and no matching funds for the capital project are required from land grant operating funds. Dr. Tidwell agreed that the capital funds are not in jeopardy, but what could be in jeopardy is the program's operating funds.

Senator Jackson said the KSU Aquaculture Program is critically important to the state and specifically to Western Kentucky. He said he and Senator Leeper are working with the catfish industry in Western Kentucky and he hoped CPE and KSU can work out their differences because people in Western Kentucky are counting on this program.

Senator Buford said that the Aquaculture Program is an excellent program that should be funded.

Senator Jackson made a motion to approve the \$150,000 scope increase for the KSU Aquaculture Program. The motion was seconded by Senator Buford and passed by voice vote. The revised project scope is \$800,000.

The final project Mr. Hintze reported was a funding certification required for the Muhammad Ali Center in Louisville. Mr. Hintze said the state appropriated \$10 million to the construction of the facility, contingent upon the backers of the facility raising and certifying \$20 million independent of state support. (The \$10 million consists of \$7 million state bond funds and \$3 million from Economic Development Bond proceeds previously authorized and issued for the Vencor Building.) The private funding certification had to be accepted by the Secretary of Finance and provided to the

committee before the \$10 million could be disbursed. Mr. Hintze said the \$10 million will now be disbursed through a Memorandum of Understanding.

In response to a question from Representative Wayne, Mr. Hintze said Economic Development Bond funds (\$3 million) previously awarded to Vencor will now be available for the Muhammad Ali Center.

Chairman Haydon said no action was required for this project report.

Chairman Haydon then called on Mr. Tom Howard, Deputy Executive Director for the Office of Financial Management, to present the agency's bond activity report. Mr. Howard gave a follow-up report for a previously issued bond: State Property & Buildings Commission Revenue Refunding Bonds, Revised Project No. 74 and 75 (\$312,220,000). Mr. Howard said they also refunded approximately \$100 million under Project No. 74. Chairman Haydon said no action was required for follow-up reports.

Mr. Howard reported four new bond issues with School Facilities Construction Commission (SFCC) debt service participation for Ballard County, Floyd County, Trimble County, and Whitley County, and one reapproved SFCC bond issue for Harlan County.

Representative Marcotte made a motion to approve the school bond issues with SFCC debt service participation. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon said there were two locally-funded school bond issues submitted to the committee for review this month: Adair County and Fulton County. All disclosure information has been filed, and no further action on these bond issues is required.

Chairman Haydon said the committee's next meeting is scheduled for March 20 at 9:00 a.m. in Room 111 of the Capitol Annex.

With there being no further business, Representative Wayne made a motion to adjourn the meeting. The motion was seconded and passed by voice vote. The meeting adjourned at 10:00 a.m.